



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

February 20, 2009

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MARK RIDLEY-THOMAS
Second District

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Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over a horizontal line.

SACRAMENTO UPDATE -- FY 2008-09 AND FY 2009-10 STATE BUDGET

Overview

After a three month budget impasse and days of intense negotiations, on February 19, 2009, the Senate and the Assembly voted to approve the State Budget package which would resolve the projected budget shortfall of \$42.0 billion over a 17-month period through June 30, 2010. The Governor announced that he plans to sign the budget package tomorrow.

Senator Abel Maldonado (R-Santa Maria) provided the deciding vote when the Governor and Democratic members agreed to: 1) eliminate the proposed 12 cent per gallon increase in the gasoline excise tax which would have generated \$2.1 billion in new revenues; 2) support two constitutional amendments to establish an open primary and eliminate legislative pay increases during deficit years; and 3) eliminate the \$1 million in funding for the State Controller's Office for new work stations. The elimination of the 12 cent gasoline tax revenue will be replaced by a 0.25 percent increase in the State Personal Income Tax, the assumption of \$7.8 billion in Federal Stimulus revenues, and more than \$600 million in line-item vetoes.

According to the Assembly Budget Committee Updated Floor Report on the FY 2008-09 Special Session Budget Adjustments and the FY 2009-10 State Budget Act, the primary components of the deficit reduction plan are estimated to be \$14.9 billion in expenditure reductions, \$12.5 billion in new revenues, \$7.8 billion of Federal Stimulus revenue,

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\$5.4 billion in borrowing, and a year-end reserve of \$1.0 billion. In addition, voters would be asked to approve six initiatives in May 2009, two of which would change the current use of funding from the Mental Health Services Act (Proposition 63) and the California Children and Families Act (Proposition 10), and condition the duration of the tax increases on voter ratification of a Constitutional amendment to limit State spending. Also, voters will be asked to approve an open primary for State and Congressional races in the June 2010 ballot.

The final budget package included a number of bills and required concessions made to other legislators that were essential to final passage even though their subject matter was unrelated to specific budget issues. Of particular note is a provision in an omnibus bill which removes the cap on property tax increment for a redevelopment area in the City of Glendora without compliance with existing requirements for a public finding of the persistent of blight.

Estimated Impact on the County

As reported in our January 12, 2009 Sacramento Update, the Governor's January Proposed Budget would have imposed losses of \$50.5 million in FY 2008-09 and \$268.6 million in FY 2009-10 to the County which would have been in addition to the \$128.6 million loss the County suffered under the FY 2008-09 State Budget Act.

Based on our analysis of the FY 2008-09 Special Session Budget Adjustments and the FY 2009-10 Approved State Budget, **we estimate that the County would lose \$25.8 million in FY 2008-09 above the FY 2008-09 State Budget Act for a total loss of \$154.4 million in FY 2008-09, and a projected loss of \$98.0 million in FY 2009-10. This would result in total loss of \$252.4 million through June 30, 2010. Please note that these losses do not account for the Governor's anticipated \$600 million in line-item vetoes, and it has been reported that the line-item vetoes will be primarily in the areas of corrections and education.**

The FY 2008-09 Special Session Budget Adjustments impacting the County include:

- Juvenile Probation and Camp Funding - \$16.74 million reduction;
- Juvenile Justice Crime Prevention Act - \$7.14 million reduction; and
- Citizens Option for Public Safety - \$1.9 million reduction.

The FY 2009-10 Approved State Budget proposals impacting the County are:

- Mental Health Services Act Funds - \$64.4 million reduction;
- Federal Safety Net Care Pool & South L.A. Preservation Fund - \$24.4 million reduction;
- Medi-Cal Program Administration - \$15.4 million reduction;
- Delay of SB 90 Deferred Mandate Payments - \$14.0 million reduction; and

- Medi-Cal Optional Benefits Reductions - \$5.6 million cost shift to the County.

In addition, for FY 2010-11 we estimate that the proposed transfer of Mental Health Services Act (Proposition 63) funds to support the Early Periodic Screening, Diagnosis, and Treatment Program would result in the loss of an additional \$66.4 million.

The overall estimated fiscal impact on the County by program is contained in Attachment I, and a description of the proposed budget changes of interest to the County is included in Attachment II. Details of the key revenue proposals are presented in Attachment III.

Federal Stimulus Revenue

The initial budget agreement did not include any Federal stimulus revenues. The adopted budget agreement includes \$7.8 billion in stimulus revenues as an integral part of the budget solution and contains a \$10 billion stimulus trigger to restore funding for certain programs if Federal stimulus revenues are sufficient to offset \$10 billion in State General Fund costs. If the Director of Finance and the State Treasurer determine by April 1, 2009 that funds in this amount will be available, the following restorations will occur:

Restorations of Interest to the County:

- Safety Net Care Pool and South L.A. Preservation funding;
- Medi-Cal optional benefit funding including: adult dental; acupuncture services; audiology services and speech therapy services; chiropractic services; optometric and optician services, including services provided by a fabricating optical laboratory; podiatric services; psychology services; and incontinence creams and washes.

If the Federal Stimulus Revenue mechanism is triggered, funding for the County's Safety Net Care Pool (\$24.4 million) and Medi-Cal optional benefits (\$5.6 million) would be restored.

Other Restorations:

- SSI/SSP grant reduction of \$20 per month for individuals and \$35 per month for couples;
- Cap State participation in In-Home Supportive Services wages to \$9.50 per hour for wages plus \$0.60 an hour for benefits;
- Prohibit any new IHSS clients from receiving Medi-Cal Share-of-Cost Buy-Out;
- 4 percent reduction in CalWORKs grants;
- \$100 million reduction to Higher Education Funding;
- \$100 million reduction to court funding; and

- \$71.4 million for new judgeships.

Tax Reduction

- The 0.25 percent Personal Income Tax surcharge would be reduced to 0.125 percent.

Estimated Impact from State Payment Deferrals

Last month, the Department of Finance released trailer bill language to defer payments to counties for up to seven months for various programs which would have resulted in the delay of \$1.423 billion in payments to the County, as indicated in the report to the Board dated January 26, 2009. The proposal was not approved; however, the FY 2008-09 Special Session Budget Adjustments and FY 2009-10 Approved State Budget contain cash management proposals, which would instead defer payments for various health, mental health and social services programs, SB 90 mandates, and gasoline excise tax allocations for up to a three month period. **Overall, these proposals will result in payment deferrals of approximately \$448.5 million to the County.**

Health and Social Services Programs

The proposal to defer payments for most health and social services programs, with the exception of SSI/SSP and In-Home Supportive Service (IHSS) provider payments, for the months of July and August 2009 would affect the following:

Program	Description	Deferral Impact
Social Services Payments, except SSI/SSP and IHSS	Defers the July and August advance payments to counties until September.	\$ 248.9 million
Medi-Cal Program Services	Defers the July and August payments to counties until September.	\$ 64.5 million
Early and Periodic Screening, Diagnosis and Treatment (EPSDT)	Defers one quarterly payment to counties.	\$ 34.6 million
Public Health Programs	Defers the July and August payments to counties until September.	\$ 24.2 million
Total Deferred Payments for Health and Social Services		\$ 372.2 million

Gasoline Excise Tax Revenues

The proposal to postpone payments of gasoline excise tax revenues to cities and counties for February, March, and April 2009, to be repaid in May 2009, would have the following impact on the County:

Program	Description	Deferral Impact
Highway Users Tax Account - County Road Fund	Defers monthly payments for February, March and April 2009 to May 2009.	\$ 30.0 million

State Mandates Reimbursement

The compromise budget package includes a proposal to defer \$142 million in mandate reimbursements to local governments from August to October 15 or 60 days after the date the appropriation for the claim is effective, whichever is later. Some of these mandates include AB 3632 mental health services to handicapped students, absentee ballot, and sexually violent predators claim reimbursements. If this proposal is enacted, the estimated impact to the County, as provided by the Auditor-Controller, would be:

Program	Description	Deferral Impact
State Mandates	Defers payments for mandate reimbursements from August to October	\$ 46.3 million

OVERALL PAYMENT DEFERRALS	\$ 448.5 million
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Ballot Measures

Voter approval will be necessary to pass six ballot measures, tentatively scheduled for a May 19, 2009 Special Election, to enact various provisions of the approved budget plan including:

1. A constitutional amendment to establish a State spending limit;
2. The shift of Proposition 63 funds to support State EPSDT Program costs;
3. The redirection of Proposition 10 funds to provide health and human services for children from birth to five years of age;
4. Authorization to securitize future State lottery proceeds;
5. A constitutional amendment for \$9.3 billion in school funding in future years in lieu of payments currently required under Proposition 98; and
6. A constitutional amendment banning legislative pay increases during deficit years.

In addition, a constitutional amendment establishing the proposed open primary will be placed on the June 2010 ballot. The open primary proposal would affect Congressional and State races starting in 2012.

Other Elements of the Budget Package

Glendora Redevelopment Agency

Among the 30-plus bills that comprise the overall State Budget agreement is a provision that would remove the cap on the amount of property tax increment which can be transferred to the Glendora Redevelopment Agency (RDA) for Glendora Redevelopment Project No. 3. Over the next 21 years, the Glendora RDA would receive approximately \$79.4 million, the County would lose \$35.3 million, and the State would lose \$23.8 million. This action will result in initial losses to the County of \$1.15 million in FY 2008-09 and \$1.1 million in FY 2009-10. The RDA is currently in litigation with the County. The County loss represents property tax revenue that was scheduled to be returned to the County pursuant to current law. More importantly, this provision ignores existing redevelopment law which requires a public finding of persistent blight before a project can be extended which would set a very bad precedent.

California Environmental Quality Act (CEQA)

Legislation was also approved which would enact a series of amendments to current law to relax CEQA requirements on the sale of surplus State land, amend California Air Resources Board rules on heavy duty construction equipment, expedite permitting of transportation construction projects and exempt similar construction projects from environmental review under CEQA, and provide for other exemptions. The proposed changes of interest to the County are described in Attachment IV.

As more information becomes available, we will continue to keep you advised.

WTF:GK:ML
MR:IGA:lm

Attachments

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations

**ESTIMATED IMPACT TO LOS ANGELES COUNTY
FROM THE FY 2008-09 SPECIAL SESSION BUDGET ADJUSTMENTS AND
THE FY 2009-10 APPROVED STATE BUDGET**

Programs:Health

Medi-Cal Provider and Managed Care Rates
Federal Safety Net Care Pool Payments
South Los Angeles Preservation Fund
California Healthcare for Indigents Program
Section 1931(b) Medi-Cal Eligibility
Medi-Cal Eligibility for Legal Immigrants
Medi-Cal Optional Benefits Reductions

Public Health

HIV/AIDS Treatment and Prevention
Family and Health Programs
Alcohol and Other Drug Programs / Drug Medi-Cal Program
Proposition 36 Program/Offender Treatment Program
Immunization Program
Drug Court Programs
Perinatal Substance Abuse Treatment Programs
Other Non-Medi-Cal Drug Programs

Mental Health

Mental Health Managed Care Program
Institutes for Mental Disease
Mental Health Services Act (Proposition 63) Funds

Social Services

Adult Protective Services Administration
Medi-Cal Program Administration - Cost-of-Doing-Business
In-Home Supportive Services (IHSS) Administration
IHSS Program - Reduction of Recipient Services
Reduced State Participation in IHSS Wages
Food Stamps Administration
CalWORKs Program - Grant Reductions
CalWORKs Single Allocation Funding
Cash Assistance Program for Immigrants

Justice and Public Safety

Juvenile Probation and Camp Funding
Juvenile Justice Crime Prevention Act (JJCPA) Program
Citizens Option for Public Safety (COPS) Program
Multi-Jurisdictional Methamphetamine Enforcement Grants
Other Public Safety Grants

General Government ⁽⁵⁾

Delay of Deferred Mandate Payments
Public Library Fund
Subventions for Open Space (Williamson Act)

	(A) Adopted Budget FY 2008-09 ⁽¹⁾	Special Session Adjustments FY 2008-09	Total Losses FY 2008-09	(B) Approved Budget FY 2009-10	(A + B) Total Losses Thru June 30, 2010
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	(\$8,738,000)	0	(\$8,738,000)	-	(\$8,738,000) ⁽²⁾
	0	0	0	(14,400,000)	(14,400,000) ⁽²⁾
	0	0	0	(10,000,000)	(10,000,000) ⁽²⁾
	(5,300,000)	0	(5,300,000)	0	(5,300,000)
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	(5,600,000)	(5,600,000) ⁽²⁾
	0	0	0	?	?
	(1,200,000)	0	(1,200,000)	0	(1,200,000)
	(202,000)	0	(202,000)	0	(202,000)
	(6,400,000)	0	(6,400,000)	0	(6,400,000)
	(3,049,000)	0	(3,049,000)	0	(3,049,000)
	(81,000)	0	(81,000)	0	(81,000)
	(626,000)	0	(626,000)	0	(626,000)
	(610,000)	0	(610,000)	0	(610,000)
	(180,000)	0	(180,000)	0	(180,000)
	(3,800,000)	0	(3,800,000)	0	(3,800,000)
	(6,300,000)	0	(6,300,000)	0	(6,300,000)
	0	0	0	(64,400,000)	(64,400,000) ⁽⁴⁾
	(2,600,000)	0	(2,600,000)	0	(2,600,000)
	(33,400,000)	0	(33,400,000)	(15,400,000)	(48,800,000)
	(5,100,000)	0	(5,100,000)	0	(5,100,000)
	0	0	0	0	0
	0	0	0	0	0
	(6,900,000)	0	(6,900,000)	0	(6,900,000)
	0	0	0	0	0
	(17,600,000)	0	(17,600,000)	0	(17,600,000)
	0	0	0	0	0
	(8,000,000)	(16,740,000)	(24,740,000)	16,740,000	(8,000,000)
	(3,300,000)	(7,140,000)	(10,440,000)	7,140,000	(3,300,000)
	(1,000,000)	(1,907,000)	(2,907,000)	1,907,000	(1,000,000)
	0	?	?	?	?
	0	?	?	?	?
	(14,000,000)	0	(14,000,000)	(14,000,000)	(28,000,000)
	(182,000)	0	(182,000)	0	(182,000)
	(4,000)	0	(4,000)	0	(4,000)
Total	(\$128,572,000)	(\$25,787,000)	(\$154,359,000)	(\$98,013,000)	(\$252,372,000)

Notes:

- (1) This column reflects the budget cuts the County experienced when the FY 2008-09 State Budget Act was enacted.
 (2) If the Federal Stimulus Revenue mechanism in the amount of \$10 billion is triggered, funding for these programs would be restored.
 (3) There is insufficient data to determine the impact on the County. We are working with the State to determine the impact of this proposal.
 (4) Voter approval is required to shift Proposition 63 funds from counties to support State costs for the Early Periodic Screening, Diagnosis and Treatment Program. The County will lose an additional \$66.4 million in FY 2010-11.
 (5) The budget package contains a proposal that removes the cap on the property tax increment for a redevelopment area in the City of Glendora, which would result in the loss of \$35.3 million to the County over a 21-year period.
 This action would result in a County loss of \$1.15 million in FY 2008-09 and \$1.19 million in FY 2009-10.

This table represents the estimated loss/gain of State funds based upon the FY 2008-09 Adopted Budget, the FY 2008-09 Special Session Budget Adjustments and the FY 2009-10 Approved Budget. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.

**FY 2008-09 SPECIAL SESSION BUDGET ADJUSTMENTS AND
FY 2009-10 APPROVED STATE BUDGET**

BUDGET HIGHLIGHTS

General Government

State Mandates. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget retained the Governor's proposal to defer the FY 2009-10 payment of the mandates obligation for costs incurred by local governments prior to FY 2004-05. While the State is statutorily required to fully repay counties by FY 2020-21, a similar deferral was adopted in the FY 2008-09 State Budget Act. The County will lose an additional \$14 million in FY 2009-10.

Elections. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget appropriated a minimum of \$10 million and a maximum of \$15 million (subject to legislative review) for the Secretary of State to conduct a Statewide special election on May 19, 2009 for the purpose of placing the following budget-related measures on the ballot: 1) a constitutional amendment to establish a State spending limit; 2) a constitutional amendment related to Proposition 98 education funding; 3) authorization to securitize future State lottery proceeds; 4) redirection of Proposition 10 funds to provide health and human services for children from birth to five years of age; 5) redirection of Mental Health Services Act funds for the Early and Periodic Screening, Diagnosis and Treatment Program; and 6) a constitutional amendment banning legislative pay increases during deficit years.

Subventions for Open Space Act (Williamson Act). The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget rejected the Governor's proposal to eliminate \$34.7 million in State reimbursements for the Subventions for Open Space Act (Williamson Act) Tax Relief Program. The Williamson Act authorizes any city or county to enter into a contract with the owner of agricultural land to preserve that land in accordance with the conditions established by the Act.

Glendora Redevelopment Agency. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget contains a provision that would remove the cap on the amount of property tax increment which can be transferred to the Glendora Redevelopment Agency (RDA) for Glendora Redevelopment Project No. 3. Over the next 21 years, the Glendora RDA would receive approximately \$79.4 million, the County would lose \$35.3 million, and the State would lose \$23.8 million. This action will result in initial losses to the County of \$1.15 million in FY 2008-09 and \$1.1 million in FY 2009-10. The County losses represent property tax revenue that was scheduled to be returned to the County pursuant to current law. More importantly, this provision ignores existing redevelopment law which requires a public finding of persistent blight before a project can be extended.

Health

Federal Safety Net Care Pool Payments (SNCP). The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget reduced the Federal SNCP funding for public hospitals by 10 percent. These funds would be used to backfill State General Fund expenditures in the California Children's Services Program, the Medically Indigent Adult-Long Term Care Program, and the Genetically Handicapped Persons Program. The Administration assumes State General Fund savings of \$54.2 million in FY 2009-10. The Department of Health Services (DHS) estimates a loss of \$14.4 million in SNCP payments and \$10 million for the South Los Angeles Preservation Fund, for a total loss of \$24.4 million in FY 2009-10. This reduction would be restored under the Federal revenue trigger if the Director of Finance and the State Treasurer determine by April 1, 2009 that the State has received sufficient Federal funds to offset at least \$10 billion of State General Fund costs.

Medi-Cal Optional Benefits. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget eliminated Medi-Cal optional benefits for adults including dental, acupuncture, audiology and speech therapy, chiropractic, services, optometry, podiatry, psychological services, and incontinence supplies. DHS indicates that it provides dental and psychological services, and to a lesser extent optometry services, in County facilities. DHS estimates a cost increase of \$5.6 million in FY 2009-10 from the loss of these services which are currently funded by Medi-Cal. This reduction could be restored under the Federal revenue trigger.

Delay in Payments to Medi-Cal Providers. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget continued the Administration's authority to delay payments to Medi-Cal fee-for-service providers for one-month, if necessary, to manage the State's cash flow. This proposal is in addition to a previously authorized two-week delay under current law.

Medi-Cal Eligibility for Legal Immigrants. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget rejected the Governor's Budget proposal to eliminate full-scope Medi-Cal benefits for newly qualified immigrants who have been in the United States for less than five years and immigrants who permanently reside under the color of law. Based on the limited information available, DHS estimated that this proposal would have resulted in a potential County loss of \$625,000 in FY 2008-09 and \$1.5 million in FY 2009-10.

Medi-Cal Monthly Reporting Requirement for Undocumented Immigrants. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget rejected the Governor's Budget proposal to implement a monthly eligibility reporting requirement for undocumented immigrants, unless a subsequent emergency arises. DHS indicated that this change would have increased the number of Medi-Cal applications taken for this population, resulting in increased County fee revenue.

Medi-Cal Section 1931(b) Program. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget rejected the Governor's Budget

proposals to roll back the income eligibility level for the Medi-Cal Section 1931(b) Program for applicant families who currently qualify for Medi-Cal benefits without a share of cost, and define under-employment as the principal wage earner working less than 100 hours per month. Based on previous proposals by the Administration, if the changes to the Medi-Cal 1931(b) Program were phased in over 33 months, they would have resulted in the loss of Medi-Cal benefits for approximately 157,000 parents in Los Angeles County by FY 2011-12. DHS estimated that these proposals would have resulted in a potential County loss of approximately \$2.1 million in FY 2008-09 and \$5 million in FY 2009-10.

Mental Health

Mental Health Services Act (Proposition 63). The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget shifted \$226.7 million from the Mental Health Services Act (MHSA) to fund State costs for the Early and Periodic Screening, Diagnosis and Treatment Program in FY 2009-10, and up to \$234 million in FY 2010-11 for the same purpose. Voter approval would be required to amend the non-supplantation provision of Proposition 63. The budget also directs the State Department of Mental Health to streamline its processes regarding county plans and to increase the oversight of the Mental Health Services Oversight and Accountability Commission. The Department of Mental Health estimates a loss of \$64.4 million in funding in FY 2009-10 and \$66.4 million in FY 2010-11.

Social Services

CalWORKs Program. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget rejected the Governor's Budget proposed reductions to the CalWORKs Program to:

- **Modify the Safety Net Program.** Maintain the child-only CalWORKs grant beyond the 60-month time limit only when the able-bodied adult meets the Federal work participation requirements and eliminate safety net benefits if the adult does not meet the work participation requirements. This proposal would have impacted approximately 13,551 families in Los Angeles County and 32,311 children in those families.
- **Child-Only Benefits.** Limit child-only benefits to 60 months when the parent or caretaker is an undocumented non-citizen, a convicted drug felon, or a fleeing felon. This proposal would have impacted approximately 16,167 families in Los Angeles County and 39,377 children in those families.

• These proposals would have resulted in the estimated loss of \$25.9 million in cash grants to CalWORKs families in FY 2008-09 and \$155.3 million in FY 2009-10. If 50 percent of the children terminated from CalWORKs cash assistance applied for, and were determined eligible for General Relief, the proposal would have resulted in an estimated increased net County cost of \$13.4 million in FY 2008-09 and \$80.4 million in FY 2009-10.

CalWORKs Grant Reduction. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget rejected the Governor's Budget proposal to reduce recipient grants by 10 percent and instead reduced CalWORKs grants by 4 percent effective July 1, 2009 for a State General Fund savings of \$146.9 million in FY 2009-10. This reduction would be restored under the Federal revenue trigger if the Director of Finance and the State Treasurer determine by April 1, 2009 that the State has received sufficient Federal funds to offset at least \$10 billion of State General Fund costs.

CalWORKs Child Care. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget retained the Governor's Budget proposal to appropriate \$108 million in savings from prior-year child care funds to address budget shortfalls in the CalWORKs Stages 2 and 3 Child Care costs in FY 2008-09. The Administration previously indicated that the FY 2008-09 State Budget anticipated one-time savings from the After School Education and Safety (ASES) program to fund CalWORKs. However, the anticipated ASES savings did not materialize.

Child Care and Development Programs. The FY 2008-09 Special Session Budget Adjustment reduced Proposition 98 funding for child care and development programs by \$97 million in FY 2008-09. Of this amount, \$82 million is savings attributable to revised caseload and programmatic projections. The remaining \$15 million is attributable to a delay in implementing new Regional Market Rates for child care providers. The Office of Child Care indicates that current funding levels do not accurately reflect the need for child care and development services in Los Angeles County. As of February 12, 2009, 27,887 families with 40,962 children are registered on the Los Angeles County Centralized Eligibility List. These eligible families and children are waiting for subsidized child care and development services.

County Administration of Medi-Cal - Cost-of-Doing Business. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget retained the Governor's Budget proposal to suspend the statutory cost-of-doing business adjustment for County administration of the Medi-Cal Program for State General Fund savings of \$24.7 million. Assuming a total reduction of \$49.4 million in combined State and Federal funds, the Department of Public Social Services estimates that this proposal will result in a County loss of approximately \$15.4 million in FY 2009-10.

In-Home Supportive Services (IHSS) - Reduction of Recipient Services. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget rejected the Governor's Budget proposal to eliminate IHSS domestic and related services for recipients who have lower services needs. This proposal would have resulted in a reduction in domestic and related services for approximately 35,000 IHSS recipients in Los Angeles County and an estimated net County cost savings of \$2.3 million in FY 2008-09 and \$14.2 million in FY 2009-10.

IHSS Provider Wages. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget rejected the Governor's Budget proposal to reduce

State participation in IHSS provider wages to the State minimum wage of \$8.00 per hour, and retain State participation in the health benefits at \$0.60 per hour and would instead limit State participation in IHSS wages to \$9.50 per hour plus up to \$0.60 per hour for health benefits. The current County wage rate is \$9.00 per hour; therefore, this proposal would not impact the County. State participation would be restored to the current level of \$12.10 per hour in wages and health benefits under the Federal revenue trigger.

Cash Assistance Program for Immigrants (CAPI). The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget rejected the Governor's Budget proposal to eliminate CAPI. This proposal would have resulted in the loss of cash benefits for approximately 5,600 aged and disabled legal immigrants in Los Angeles County. If 100 percent of these individuals applied for and were determined eligible for General Relief, this proposal would have resulted in an estimated net County cost of \$2.5 million for the period from May 1, 2009 to June 30, 2009, and an estimated annual County cost of \$13.7 million in FY 2009-10 thereafter.

LEADER Replacement System. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget retained the Governor's Budget proposal to delay funding for the implementation, design, and development of the LEADER Replacement System by six months, from January 2010 to July 2010, for an estimated State savings of \$14.6 million.

California Children and Families Act of 1998 - Proposition 10 Funds. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget would, upon voter approval, amend the California Children and Families Act to:

- Specify that Proposition 10 funds be used to provide direct health care services, human services, including services for at-risk families who receive child welfare services, and direct early education including preschool and child care;
- Require base level funding of \$400,000 for each County Proposition 10 commission;
- Redirect \$340 million in Proposition 10 funds that are not encumbered or expended by July 1, 2009 to support State health and human services programs for children up to five years of age, which would include, but is not limited to, early intervention and prevention services for infants and toddlers with developmental disabilities, child welfare services, adoption assistance, foster care, Kin-GAP, and health care services; and,
- Redirect \$268 million in Proposition 10 funds annually for five years to support health and human services programs for children up to five years of age.

Justice and Public Safety

Juvenile Probation and Camp Funding. The FY 2008-09 Special Session Budget Adjustment does not provide details on Juvenile Probation and Camp funding reductions. However, according to the Chief Probation Officers' Association, the FY 2008-09 Special Session Budget Adjustment would reduce Juvenile Probation and Camp funding by \$42.7 million Statewide in FY 2008-09. According to the Probation Department, this would result in an estimated County loss of \$16.74 million in FY 2008-09. The California State Association of Counties (CSAC) and the Chief Probation Officers of California (CPOC) indicate that the program will be restored to the FY 2008-09 State Budget Act Statewide level of \$181.4 million.

Juvenile Justice Crime Prevention Act (JJCPA). The FY 2008-09 Special Session Budget Adjustment reduced funding for the JJCPA by \$25.5 million Statewide. According to the Probation Department, this would result in a reduction of approximately \$7.14 million to the County in FY 2008-09. CSAC and CPOC indicate that the program will be restored to the FY 2008-09 State Budget Act Statewide level of \$107 million.

Citizen's Option for Public Safety (COPS). The FY 2008-09 Special Session Budget Adjustment reduced funding for the COPS grant by \$25.5 million Statewide in FY 2008-09. The estimated impact on the County is \$1.9 million. CSAC and CPOC indicate that the program will be restored to the FY 2008-09 State Budget Act Statewide level of \$107 million.

Transportation

Proposition 42. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget provided full funding of Proposition 42 revenues in FY 2008-09 and FY 2009-10. The proposed 1 cent increase in the State Sales and Use Tax rate, effective April 1, 2009, is expected to generate additional revenues of \$1.2 billion in FY 2008-09 and \$4.6 billion in FY 2009-10. Of these amounts, the Department of Public Works (DPW) estimates it will receive an additional \$2 million in FY 2008-09 and \$12 million in FY 2009-10. However, these additional amounts may be partially offset by the projected overall decrease in Proposition 42 revenues received by the County due to the lower price of gasoline and reduced consumption. Overall, DPW indicates that the County is expected to receive a total of \$56 million in Proposition 42 funds in FY 2008-09 and \$68 million in FY 2009-10 based on State sales tax revenue projections.

Transit Funding Shift. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget reduced State Transit Assistance (STA) funding by \$153 million in FY 08-09 and eliminated \$306 million in funding in FYs 2009-10 through 2012-13 to provide State General Fund relief by shifting transit revenue to the State. The State will spend the funding on mass-transportation programs in the State Department of Social Services and in K-12 education.

This reduction in funding of the STA Program does not directly affect funding for DPW transit services. Funding from this program is provided for local mass transportation programs for which DPW is not eligible. The proposed reduction will impact many of the large service providers throughout the County, including the Metropolitan Transportation Authority and may result in a reduction of revenues for Metro's bi-annual competitive Call For Projects grant program. Local jurisdictions, including the County of Los Angeles, are recipients of Metro's Call For Projects grant funding.

Housing

Employee Housing Act Inspections. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget suspended funding for State inspections of employee housing. The suspension of funds for this program will impact local jurisdictions that coordinate the implementation of the Employee Housing Act with State law enforcement. The Employee Housing Act designates the State Department of Housing and Community Development as the lead agency to conduct annual inspections of all employee housing accommodations to ensure compliance with the Employee Housing Act. Although some local jurisdictions have opted to locally enforce the requirements of the Employee Housing Act, the vast majority of local jurisdictions, including Los Angeles County, rely upon the State to enforce the law.

According to the Department of Regional Planning, suspending the funds for the State's inspection duties will have financial and legal implications for many local jurisdictions including the County. Under the Housing Element Law, Los Angeles County is required to address the housing needs of certain special needs populations, including agricultural workers. To address this need, the Department of Regional Planning is currently in the process of amending the zoning code to ensure that its land use regulations comply with the requirements of the Employee Housing Act.

Natural Resources

California Department of Boating and Waterways. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget retained a \$29 million loan from the Harbors and Watercraft Revolving Fund to the State General Fund to be repaid by June 30, 2013.

California Department of Parks and Recreation. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget retained a fund shift of \$11 million in FY 2008-09 Proposition 84 funds for implementation of the California Department of Parks and Recreation's Americans with Disabilities Act multi-year compliance plan.

State Water Project Facilities. The FY 2008-09 Special Session Budget Adjustment and FY 2009-10 Approved State Budget rejected the Governor's increase of \$30.9 million in Proposition 84 funds to the California Department of Water Resources for boating related recreation and fish and wildlife enhancements at State Water Project facilities.

REVENUE SOLUTIONS

The budget package includes \$12.5 billion in temporary tax increases. The estimates are contained in the February 19, 2009, Office of Senate Rules Floor Analysis. The major components of the proposed tax increases include:

- **State Sales and Use Tax Rate.** Increases the Sales and Use Tax rate by 1 cent effective April 1, 2009 which is projected to generate \$1.2 billion in FY 2008-09 and \$4.6 billion in FY 2009-10. The rate increase will sunset on June 30, 2012 if the voters approve an expenditure limit constitutional amendment. If the voters reject the amendment, the rate increase will expire one year earlier, on June 30, 2011.
- **Personal Income Tax Surcharge.** Imposes an additional 0.25 percent surcharge on each existing personal income tax bracket beginning with tax year 2009. The surcharge is projected to generate \$3.7 billion in FY 2009-10. It would be in effect through tax year 2012 if the voters approve the proposed spending limit constitutional amendment. If the amendment is rejected, the surcharge will expire two years sooner and only would apply to tax years 2009 and 2010. In addition, the amount of the surcharge is linked to a Federal Stimulus Package revenue trigger which, if activated, would reduce the surcharge by one-half, from 0.25 percent to 0.125 percent.
- **Vehicle License Fees.** Increases the Vehicle License Fee (VLF) from the current rate of 0.65 percent to 1.15 percent, except for heavy vehicles. Revenues from the 1 percent increase will be retained by the State General Fund (\$264 million in FY 2008-09 and \$1.2 billion in FY 2009-10) and revenue from the additional 0.15 percent increase will be transferred to a new special account dedicated to the funding of local public safety programs. The new account will receive \$111 million in FY 2008-09 and \$508 million in FY 2009-10. The VLF rate increase will be effective for registrations beginning May 19, 2009 and expire June 30, 2013 if voters approve the proposed spending limit constitutional amendment. If voters reject the amendment, the rate increase will expire two years sooner on June 30, 2011.
- **Dependent Tax Credit.** Reduces the dependent tax credit against the Personal Income Tax from \$309 to the level of the existing personal credit of \$99 beginning in the 2009 tax year which would generate \$1.4 billion. The reduction would apply through tax year 2012 if the voters approve the spending limit constitutional amendment. If the amendment is defeated, the dependent credit reduction would only apply to tax years 2009 and 2010.

Other key components of the new revenue solutions include:

- **Mental Health Services Act of 2004 (Proposition 63).** Shifts \$227 million in FY 2009-10 and \$234 million in FY 2010-11 from Proposition 63 programs to help fund the State General Fund share of cost for the Early Periodic Screening, Diagnosis and Treatment Program. Proposition 63 is a tax surcharge levied on individuals with personal income over \$1 million. This proposal is subject to voter approval.
- **California Children and Families Act of 1998 (Proposition 10).** Redirects \$340 million on a one-time basis, and \$268 million annually for five years, from Proposition 10/First 5 Child Development Programs to the State General Fund for health and human services, services for at-risk families who receive child welfare services, and early education including preschool and child care. Proposition 10 is supported by tobacco taxes. This proposal is also subject to voter approval.
- **Additional Borrowing.** Assumes a total of \$5.4 billion in additional borrowing to help address the budget shortfall. The major components include:
 - a) \$5 billion from the securitization of the lottery, which was approved as part of the FY 2008-09 State Budget Act and requires voter approval; and
 - b) \$402 million from various transfers and loans from special fund accounts.

MODIFICATIONS TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT AND RELATED STATUTES

AB X2 8 would enact a series of amendments to current law to relax California Environmental Quality Act (CEQA) requirements on the sale of surplus State land, amend California Air Resources Board (CARB) rules on heavy duty construction equipment, expedite permitting of transportation construction projects and exempt similar construction projects from environmental review under CEQA, and provide for other CEQA exemptions. The proposed changes of interest to the County are:

CEQA Exemption for Sale of Surplus State Land

This legislation would exempt the sale of surplus State property from CEQA review when the close of escrow is contingent upon certain local government land use laws. The Department of Public Works (DPW) indicates that this would make it easier for the State to sell property in environmentally sensitive areas or where there are existing environmental issues, such as hazardous wastes or cultural resources.

Diesel Off-Road Vehicle Rule

In 2007, CARB adopted regulations for off-road diesel-powered equipment which required large fleets, such as the County's, to begin retrofitting/replacing equipment to reach compliance milestones beginning in 2009. The cost of compliance for DPW is estimated to be between \$3 million to \$5 million.

The bill would require CARB to amend specified provisions of its In-Use Off-Road Vehicle Regulation to delay the implementation of this off-road equipment regulation and extend the beginning of the compliance period from 2009 through 2013. It also would declare that an off-road heavy-duty project that involves farm equipment shall be deemed to have a minimum project life of at least 10 years, and declare that a grant may be awarded to an off-road heavy-duty farm equipment project regardless of the time period between the date of the application and the regulation compliance date, as long as the grant is not awarded after the legally mandated date for compliance.

DPW indicates that the State is required to comply with Federal Clean Air regulations by 2014 and failure to observe these regulations will put the State's Federal funding at risk. DPW states that the air quality in the South Coast and San Joaquin Valleys will more than likely fail to comply with federal standards if this legislation is enacted. From a health standpoint, DPW indicates that postponement of compliance has negative consequences when considering a recent California State University at Fullerton study which placed the cost of air pollution in Los Angeles County at more than \$12 billion per year due to respiratory illness, heart disease, lost school days, lost work days, and premature deaths. In addition, DPW is concerned that similar legislation to roll back CARB's new statewide truck and bus regulations could follow if this legislation becomes law.

Expedited Permit Review for Specified Transportation Projects

The bill also would establish an expedited permit streamlining process for specified transportation projects by: 1) accelerating permit review, issuance, issuance with conditions, or denial of permits for those projects without affecting the underlying authority of permitting agencies; 2) establishing an ad hoc critical infrastructure permit review panel to convene permitting agencies with jurisdiction over specified transportation projects to coordinate actions on permits; and 3) requiring permitting agencies to deem applications complete within 15 days and act on a permit within 30 days of an application being deemed complete.

DPW indicates that generally large transportation projects will benefit from these provisions; however, none of the specified projects are located in Los Angeles County. Some of the projects near the County that qualify for streamlining include: a) Palm Avenue grade separation in San Bernardino County; b) State Route 57 northbound widening, from Katella Avenue to Lincoln Avenue, in Orange County; c) addition of an auxiliary westbound lane to State Route 91, from Interstate 5 to State Route 57, in Orange County; and d) State Route 91 widening, adding one mixed flow lane in each direction, from State Route 55 to Weir Canyon Road, in Orange County.

CEQA Exemption for Specified Transportation Projects

Specified transportation projects would be exempt from CEQA. The list of projects overlaps the list subject to permit streamlining but it is not identical. Again, none of the projects are located in the County. Some of the projects that qualify for the CEQA exemption are in Fresno, San Joaquin, and Orange counties.